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Notice of Market Dominant  
Price Adjustment

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Docket No. R2021-1

**COMMENTS OF THE  
NATIONAL ASSOCIATION OF PRESORT MAILERS  
(October 29, 2020)**

The National Association of Presort Mailers (NAPM) respectfully submits these comments on the United States Postal Service's Notice of Market-Dominant Price Change, R2021-1, dated October 9, 2020.

There has never been greater evidence of the importance of the U.S. Postal Service's delivery network to our nation's economic and public health welfare. The COVID 19 pandemic has demonstrated that the national postal delivery system is a fundamental part of the nation's critical economic infrastructure and that the Postal Service is a lifeline to so many Americans, especially those in remote and rural parts of the country. The country owes the USPS and its employees a debt of gratitude for continuing on its mission-critical obligation to serve our citizens and businesses. The NAPM commends the Postal Service for its service to our nation.

The NAPM is comprised of mail service providers, mail supply chain vendors and mail owners. Our members, all of whom were deemed as essential services within their states and kept their operations running during the pandemic, interact with many tens of thousands of business mail consumers, collecting or producing their mail, presorting it and presenting it to the Postal Service. Collectively, NAPM represents over 45 percent of the total First-Class Mail Presort Letters volume, a growing and significant percentage of Marketing Mail volume, and volumes in all USPS mail classes as well as Competitive Services categories. Our members are valued partners with the Postal Service, delivering high quality operationally efficient mail to the Postal Service at affordable prices to mail users. We are true partners with the Postal Service: we promote, provide education on, and sell its products, we share the same customers, and like the Postal Service, our business critically depends on keeping mail as a valued and affordable communications medium.

NAPM's members and other private sector partners work with the USPS through a unique public-private partnership called worksharing. Worksharing can reduce the USPS' costs by driving efficient mail preparation and entry behaviors. Worksharing can also support the retention and growth of mail volumes by lowering the effective price of mail and by improving service performance. NAPM

believes there are opportunities to continue to enhance and expand this partnership by exploring new and innovative ideas.

NAPM offers its comments in the spirit of a collaborative business partner. NAPM supports the Postal Service's proposals to use its pricing flexibility to provide incentives to reduce costs, enhance efficiency, and create a data-rich mail stream. NAPM is disappointed that certain critical workshare rates fail to incentivize the preparation of more efficient mail.

## **I. Maximizing Pricing and Operational Efficiency**

As part of the 10-year rate system review the Commission concluded that the USPS has not fully utilized its existing pricing flexibility in terms of setting prices to achieve ECP (Efficient Component Pricing). It stated:

In its review of the financial health of the Postal Service, the Commission also finds that while some cost reductions and efficiency gains occurred during the PAEA era, the incentives were not maximized in a way that allowed the Postal Service to achieve financial stability.<sup>1</sup>

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The Commission finds that the Postal Service was able to adjust prices to achieve ECP and did not do so during the PAEA era. Thus, the Commission concludes that the system did not increase pricing efficiency, as measured by adhering as closely as practicable to ECP, during the PAEA era.<sup>2</sup>

The Commission further stated:

Workshare discounts set substantially above or substantially below avoided costs are problematic because they send inefficient price signals to mailers and therefore reduce productive efficiency in the postal sector. Specifically, inefficient pricing signals disrupt two sets of incentives — the incentives to the Postal Service to right-size its network and the incentives to mailers to enter volume that best conforms to that network. This disruption may take volume away from the least-cost producer, which may result in less efficient volume and decreased revenue for the Postal Service<sup>3</sup>.

In addition to the Commission's conclusions concerning the USPS' need to better utilize its existing

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<sup>1</sup> Docket No. RM2017-3, Order No. 4257, Order on the Findings and Determination of the 39 U.S.C. § 3622 Review (Dec. 1, 2017), at 4.

<sup>2</sup> *Id.* at 139.

<sup>3</sup> *Id.* at 89-90.

pricing flexibility to drive efficiency, the President's Task Force Report, concluded that the USPS must operate in a more cost-efficient manner by increasing "the use of third parties through additional work sharing and the use of third party processing and logistics providers."<sup>4</sup>

NAPM recognizes and appreciates that the USPS' R2021-1 proposed prices represent, in several places, better use of its pricing flexibility to drive more efficient mail preparation and entry behaviors. There still are many instances, however, where the USPS' fails to utilize the pricing flexibility it has within the existing pricing structure and regulatory framework to incent mailers to prepare and enter mail in the most efficient manner.

For example, while the USPS maintained the **differential** between the FCM 5-digit auto letter price and FCM AADC auto letter price, the below chart illustrates the continuing downward trend for FCM 5-digit Auto Letter prices in terms of passthrough. As cost avoidances for USPS have increased significantly, the workshare discount associated with achieving those savings has not improved at all. The proposed R2021-1 FCM 5-digit Auto Letter price represents only a 78.9% passthrough, the lowest passthrough for the category in the past 5 years. The price for FCM automation AADC letters is set at an 88.0% passthrough. All the FCM automation flats prices are set at 86-89% passthroughs. The R2021-1 Marketing Mail 5-digit Auto Letter price represents an 89.7% passthrough.

The USPS' decisions to impose higher effective prices on some of its most efficient mailing products by reducing the passthrough relative to the prior year once again represents a failure on behalf of the USPS to maximize pricing and operational efficiency under the existing rate system.

Setting workshare prices at decreased passthroughs only serves to enhance the attractiveness of electronic alternatives and increase the incentive for mailers to shift to them, putting Postal Service volumes and revenues further at risk. Reducing passthroughs for efficient mail categories also can drive mailers to presort and drop ship mail in a less efficient manner for the USPS to handle, further driving up its costs and in some cases negatively affecting the service performance experience of the mail user.

At a time when the USPS continues to face increasing financial pressures and negative pressures on mail volume, including those brought on by the COVID pandemic, it is extremely troubling to see it not utilize the pricing flexibility it has available to drive more profitable mail and cost reduction. The below chart shows the variation in passthroughs over the past 10 years for 5-digit automation letters in FCM and Marketing Mail as filed in price increases, the time at which the Postal Service knows the cost avoidance and sets the discounts. Thus it knows the pass-throughs (unlike with the ACRs) and is presumably happy with them.

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<sup>4</sup> United States Postal Service: A Sustainable Path Forward Report from the Task Force on the United States Postal System, December 4, 2018, at 38

Docket	First-Class Mail Presort Letters			Marketing Mail Letters		
	Discount	Cost Avoided	Pass-through	Discount	Cost Avoided	Pass-through
R2021-1	\$ 0.030	\$ 0.038	78.9%	\$ 0.026	\$ 0.029	89.7%
R2020-1	\$ 0.030	\$ 0.034	88.2%	\$ 0.025	\$ 0.027	92.6%
R2019-1	\$ 0.029	\$ 0.032	90.6%	\$ 0.025	\$ 0.025	100.0%
R2018-1	\$ 0.030	\$ 0.034	88.2%	\$ 0.023	\$ 0.026	88.5%
R2017-1	\$ 0.030	\$ 0.036	83.3%	\$ 0.020	\$ 0.026	76.9%
R2015-4	\$ 0.023	\$ 0.031	74.2%	\$ 0.019	\$ 0.022	86.4%
R2013-10	\$ 0.023	\$ 0.028	82.1%	\$ 0.020	\$ 0.020	100.0%
R2013-1	\$ 0.024	\$ 0.025	96.0%	\$ 0.019	\$ 0.019	100.0%
R2012-3	\$ 0.024	\$ 0.026	92.3%	\$ 0.018	\$ 0.020	90.0%
R2011-2	\$ 0.025	\$ 0.026	96.2%	\$ 0.018	\$ 0.020	90.0%

## II. First-Class Mail Rate Design

NAPM members were hopeful that the \$.04 increase in cost avoidances for sorting mail from the AADC to 5-digit price level (as filed in the applicable ACRs) would result in a more efficient pricing signal from the USPS, however the Postal Service has proposed the same \$0.03 differential between FCM Automation Letter 5-digit price and AADC price as last year. This differential is a significant one for NAPM members and others working in an increasingly competitive mail services market, and represents perhaps the single most significant workshare rate differential relationships based on mail volumes. Increasing workshare discount price differentials (the difference between key workshare discount prices) provides the necessary incentive to drive mailing industry behaviors to prepare and enter mail in the optimal manner for the USPS to reduce its costs. Additionally, these investments enable mailers and MSPs to support, and facilitate the development of, Postal Service innovation programs to create added value offerings, improve delivery service, and promote the growth of mail. At a time when First-Class Mail volumes continue to be threatened and businesses have other choices for their communication needs, it is essential that mail remain a cost-effective and viable solution.

As stated above, NAPM is disappointed to see the passthroughs for FCM commercial prices set significantly below 100% and many below the current passthrough. The proposed R2021-1 FCM 5-digit Auto Letter price represents a 78.9% passthrough which is the lowest passthrough for the category in the past 5 years. The price for FCM automation AADC letters is set at 88.0% passthrough. All the FCM

automation flats prices are set at 86-89% passthroughs. Reductions in passthrough work to erode the workshare price differentials that are critical to support the efficient, high quality mail preparation and entry provided by the private sector.

### **III. Marketing Mail Rate Design**

NAPM is also disappointed that the Postal Service further reduced the passthrough for 5-digit Automation Marketing Mail Letters, going from 100% in R2019-1, to 92.6% in R2020-1 and now to 89.7%. As stated above, NAPM continues to support passthroughs as close to 100% as possible, to fully reflect the value of the work performed by mailers and Mail Service Providers. NAPM encourages the Postal Service to set workshare discounts equal to 100 percent of the modeled costs avoided wherever possible to maximize incentives for the industry to collaborate with the Postal Service to reduce costs and improve efficiency.

As the Commission knows, the drop ship entry program is another key workshare program between the USPS and private sector mailers where the USPS provides incentives for mailers to transport and enter mail deeper into the USPS network and closer to its delivery destination. The drop ship program was introduced in the 1980s and over the many years since its introduction has grown to represent how the majority of commercial mail volume eligible for drop ship entry is processed. NAPM appreciates that the Postal Service continues to support drop ship entry of mail by its private sector partners through workshare discounts, but we stress that more attention needs to be given to the differences between the prices for presort levels and entry facility type because those price differentials drive mailer behaviors.

There are many factors that can go into a mailer's decision when choosing the presort level and type of entry facility for drop ship, such as fuel and other transportation costs, availability of transportation providers, presort densities, etc. But one of the main factors driving entry behavior is that of the USPS' price differentials for drop ship entry workshare discounts. One would assume that the drop ship entry discounts and the differentials between discount levels are set to drive mail preparation entry in the most optimal way for the USPS in terms of efficiency, lowest costs and driving more profitable mail categories. But that is not the case and workshare price differentials established by the USPS often do not drive industry behaviors to achieve the most efficient processing and entry.

For example, the continued USPS reduction of drop ship discounts for Marketing Mail letters to the Destination SCF (DSCF) reduces the incentive for mailers to drop to the DSCF level, instead putting price pressure to move volumes to the DNDC or Origin entry level, which increases the USPS' costs for transportation and processing of this mail. As stated above, the lack of a consistent and articulated long term pricing strategy from the USPS means that mailers and drop ship entry service

and transportation providers are unable to invest in their business in a way that would support the USPS' long term drop ship goals. If the USPS were to articulate its optimal entry facility behaviors for each processing category and presort level, then set its pricing structure and drop ship entry price differentials to drive mailers to those mail preparation and entry options, it would go a long way to not only reducing the USPS' costs but also to supporting necessary long term investments by its private sector drop ship provider partners.

The USPS should also take into account that its own service performance often drives a mailer's drop ship decisions, with some customers opting for a higher priced entry option to maintain service performance predictability and consistency. USPS service standards from an Origin or DNDC facility, for example are much longer in terms of the number of days to delivery, as well as being less predictable since USPS service performance scores from these entry levels are historically lower than those for mail entry at DSCF or DDU facilities. Mail service providers often must absorb these additional costs, in order to be competitive for customers who demand certain service performance levels, but ultimately there is a "tipping point" where they must either pass costs back to the end user customer or enter mail further upstream to reduce costs. Neither option is ideal for the customer, who may be forced to re-evaluate their marketing programs based on the additional cost to use mail vs. alternatives.

NAPM encourages the USPS to perform a thorough analysis to identify the optimal entry type for each mail processing category and presort level, then review the price relationships that would drive the desired entry behaviors including not just the absolute price but the relationships between prices.

#### **IV. A Multi-Year Pricing Strategy is Needed**

NAPM urges the Postal Service to articulate a long-term multi-year business pricing strategy for Market Dominant mail categories so that mailers and suppliers to the mailing industry can plan accordingly in terms of their investment in software, hardware, equipment, personnel, and other expenses.

When pricing signals fluctuate each year or within a few years in a manner that does not seem to reflect a long-term strategy, and are inconsistent from one year to another, it does not allow private sector partners to prepare to better support the USPS and the mailing industry, and instead leaves private sector businesses either reacting to short term price changes only to have them reversed the next price change, or making the business decision not to invest in more efficient processes because it is unknown whether the pricing signals will remain in subsequent years. In looking at the trend of how the USPS sets workshare prices in terms of passthrough it is hard to discern a clear long-term business strategy from USPS since just in the past 5 years there has been as much as a 14% change in passthroughs. A long-term pricing

strategy would include consistent direction of passthroughs with little change in the percentage over the period, and should promote the most efficient and profitable mail preparation and entry.

NAPM again encourages the Commission to use this pricing filing to “strengthen” and apply its past recommendations around USPS pricing efficiency as intended in the current rate making system, particularly if the USPS is unable to articulate a clear long term pricing strategy consistent with the Objectives and Factors laid out in the Postal Accountability and Enhancement Act (PAEA).

## **V. Pricing Incentives**

Pricing incentives are important to encourage mailers and mail service providers to presort and commingle letters and flats which are more efficient, less costly, and more profitable for the USPS. The NAPM encourages the Postal Service to continue to provide incentives to keep presort mail in the system and protect its more efficient and profitable mail categories.

Seamless Acceptance Incentive. NAPM commends the Postal Service for its proposal to create a Seamless Acceptance incentive to drive mailers to move into the full Seamless program. The new incentive represents an appropriate exercise of the Postal Service’s pricing flexibility to drive more efficient mail preparation and entry.

As the USPS states in its R2021-1 price filing, “[a] rate incentive is ‘a discount that is not a workshare discount and that is designed to increase or retain volume, improve the value of mail for mailers, or improve the operations of the Postal Service.’ 39 C.F.R. § 3030.523(a)(3).” As the USPS notes in its filing, Seamless Acceptance provides it with enhanced visibility of mail, moves much of its current manual mail verification process into an automated process, and improves the USPS’ operational efficiency. NAPM supports the creation of an incentive designed to help defray the costs that mailers who meet the requirements of Seamless Acceptance incur.

The Seamless incentive recognizes that mailers and mail service providers must make investments to build out the technology and maintain systems to support programs like Seamless Acceptance that improve the overall efficiency of the USPS’ system. This incentive encourages them to do that and is a great example of how the USPS can use its pricing flexibility to drive desired mail preparation and entry behaviors through its Public-Private partnership with the private mailing industry.

IMb Full-Service Incentive. NAPM again commends the Postal Service’s decision to maintain the existing Full-Service price incentives for production of streamlined intelligent mail. The IMb Full-Service price incentive continues to help offset the ongoing and increasing costs for mailers to prepare high value, data-rich, streamlined mail for the USPS. NAPM reiterates that according to data collected from NAPM members when the IMb Full-Service incentive was established (and updated recently



with NAPM members), many of the identified costs for Mailers and Mail Service Providers are **ongoing** costs to support IMb Full-Service, not one-time initial set up costs. We appreciate the Postal Service's recognition of these ongoing costs in maintaining the IMb Full-Service incentive.

The "data rich" streamlined mailings provided to the USPS through programs such as IMb Full-Service and Seamless Acceptance continue to be the foundation for a long and growing list of USPS initiatives designed to add value to mail, retain mail volume, reduce USPS' costs, and increase USPS efficiency. From Informed Delivery marketing campaigns, to Service Performance Measurement and diagnostic tools to improve service, to election mail tracking, Informed Visibility, Surface Visibility, and Mailer Scorecard data to drive mail quality improvements, and much more – all rely on the data only mailers can provide with their Streamlined Mail production and processing capabilities. These data-rich capabilities provide benefits to all users of the mail and to the USPS, but they do not come without costs. The ongoing costs of supporting the necessary personnel, processes, software/hardware, etc...to produce IMb Full-Service mail are partially offset by the Full-Service price incentive, so NAPM commends the USPS' decision to continue the IMb Full-Service incentives.

Promotion Incentives. NAPM supports the Postal Service's proposed promotions for 2021 and would hope that the Commission accepts them. Many clients of our members use promotions and we believe that they are at least retaining volume in the mail. As mailer budgets get reduced each year, through the use of promotions many mailers will generate additional mail pieces as a result of the price incentives they receive. NAPM believes promotions are supported by Objectives 1, 4, and 5 as well as Factors 4, 7, and 13. NAPM would also like the Commission to encourage USPS to develop additional promotions.

## **VI. Conclusion**

In closing, NAPM stresses the need for the USPS to better utilize its existing pricing flexibility to drive efficient and lower cost mail preparation and entry. We continue to emphasize the importance of further enhancing the existing workshare public-private partnership program between the USPS and its private sector mailing partners – both to help the financial condition of the Postal Service in promoting the most cost-effective and low-cost mail for the USPS, but also for the mailing industry which, like the Postal Service, is dependent on the future of mail as an essential and affordable channel for business communication. While NAPM believes many of the Commission's proposed changes as part of its 10-year rate system review must be reconsidered in light of the pandemic and potential long-term impacts on the Postal Service and the mailing industry, we believe the proposed



changes to the workshare rules are in the best interest of all and can be done under the existing PRC regulatory framework. Accordingly, NAPM urges the Commission to move ahead with this proposed change in its workshare rules.

We cannot stress enough that there are pricing flexibilities available to the Postal Service under the current regulatory structure that can be used more effectively to drive mailer behaviors as well as supporting private mailing industry investments to maintain and enhance preparation of the most profitable and cost effective mail for the Postal Service. If the environment in which both the USPS and private industry have been operating in 2020 with a global pandemic has taught us anything, it is the importance and critical role the Postal Service plays in serving America. The private industry mailing network is an integral piece of the supply chain that includes the Postal Service, and NAPM encourages the Postal Service to work collaboratively with its industry partners. We continue to believe that expansion of the public-private partnership workshare program is necessary to enable the future financial stability of the Postal Service.

For years now, NAPM, the USPS and others have been waiting for comprehensive legislative postal reform to address some fundamental issues the USPS faces. While we believe this will still happen in the future, we know that in the interim (which could be some time) there are actions that we (the USPS, the Commission, and the industry) can take to address those issues within our control. A fundamental piece of that process is implementing pricing efficiencies as the Commission intended in the establishment of the existing rate making system. NAPM believes that more efficient pricing strategies, a long term business pricing strategy plan articulated by the USPS and consistently adhered to, and exploration of further expansion of Public-Private Partnerships to take costs out of the First and Middle Mile of the postal network can achieve significant savings for the Postal Service and stability for the private sector mailing industry that supports the Postal Service.

The NAPM appreciates the Commission's consideration of these comments.

Respectfully submitted,



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National Association of Presort Mailers  
Robert Galaher, Executive Director and CEO  
PO Box 3552  
Annapolis, MD 21403-3552 [www.presortmailer.org](http://www.presortmailer.org)  
eMail: [bob.galaher@presortmailer.org](mailto:bob.galaher@presortmailer.org)  
Phone: (800) 500-6276